MAGI
THE MAGI COMPANIES

June 13, 2011

U.S. Department of the Treasury
Office of the Comptroller of the Currency
250 E Street, SW., Mail Stop 2-3
Washington, DC 20219
Docket Number OCC-2011-0002

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attn: Jennifer J. Johnson, Secretary
Docket No. R-1411

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attn.: Comments, Richard E. Feldman, Executive Secretary
RIN 3064-AD74

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Attn.: Elizabeth M. Murphy, Secretary
File Number S7-14-11

U.S. Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552
Attn.: Alfred M. Pollard, General Counsel
RIN 2590-AA43

U.S. Department of Housing and Urban Development
Regulations Division
Office of General Counsel
51 7th Street, SW, Room 10276
Washington, DC 20410-0500

RE: DODD-FRANK RISK RETENTION REGULATIONS

This letter is a response by The Magi Companies ("MAGI") to the requirement in P.L. 111-203 (the "Dodd-Frank Act") that the Securities and Exchange Commission and the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (collectively, the "Agencies") issue rules relating to risk retention in various classes of securitization transactions, and to the Agencies' March 29, 2011 Notice of Proposed Rulemaking (the "NPRM") to implement the credit risk retention requirements.

Background on MAGI

MAGI is a small cap company founded by Gretchen Verdugo and Mary Glass-Schannault. MAGI has an affiliate, MAGI Holdings, Inc. (the "REIT"), which is a recently organized residential mortgage REIT that plans to invest in newly originated, high quality non-agency jumbo loans and other residential mortgage-backed securities. MAGI Advisors, LLC, which qualifies as a minority and women-owned business ("MWOB") was formed in April of

2010 to provide asset management, advisory, due diligence, and consulting services to the REIT and to MAGIMAC (MHI's taxable REIT subsidiary and conduit origination platform) as well as other unaffiliated entities.

Prior to founding The MAGI Companies, Ms. Verdugo and Ms. Glass-Schannault previously served as Managing Directors for Guggenheim Capital Markets, a division of Guggenheim Securities, LLC. Ms. Verdugo was with The Impac Companies beginning in August of 1997 and held the positions of EVP/Chief Financial Officer and previously the SVP/Chief Accounting Officer of the The Impac Companies' affiliated public residential and commercial REITs. Ms. Verdugo also served as Executive Vice President of Impac Warehouse Lending Group, where she managed all aspects of sales, credit and operations. Ms. Verdugo participated in the securitization of approximately $50 billion of residential and $5 billion of commercial mortgage backed securities structured as non-agency MBS, CMBS, REMIC's and CMO's and public offerings of in excess of $1 billion of equity capital for the REITs. Her professional career includes more than 20 years of financial services, capital markets and management experience. Her prior roles also include Senior Manager at KPMG, LLP in the Mortgage and Structured Finance Group. Ms. Verdugo is a CPA and obtained her MBA from the University of California, Irvine.

Ms. Glass-Schannault is nationally recognized in the mortgage banking industry with more than 35 years of leadership in managing national origination platforms for retail, wholesale and national conduit channels with considerable experience in operations, structured finance, managing credit risk and REIT management. Ms. Glass-Schannault possesses a strong commitment to quality loan originations and a zero tolerance for fraud. In her career, she has transacted more than $50 billion in residential and commercial securitizations and whole loan transactions. In 1993, she developed the original credit philosophy for the first non-agency originations and established liquidity of structured finance transactions through the development of risk-based pricing, credit grading, and a common sense approach to underwriting credit risk. Prior to leaving Guggenheim Capital Markets as Managing Director, she held executive management leadership roles in the mortgage industry with mortgage REITs, most recently at Opteum Financial as SVP and Managing Director and was a Principal Executive Officer of Impac Mortgage Holdings, Inc. and Impac Commercial Holdings, Inc. until June of 1999.

As we are certain that the majority of the letters will be from large institutions and the industry policy groups that they are a part of, we believe that as a small-cap company and as a MWOB, our views should be especially considered by the Agencies. We would also note that our views are based on our many years of experience in the mortgage banking industry and structured transactions with our determination to return to a viable market that will mandate all firms to originate quality mortgage loans. With our vast experience and direct management to reviewing thousands of loans from origination through securitization, we have required and implemented mandatory policies and procedures for each channel of origination having certain operational flow processes to determine the borrower's ability to pay and to validate the documentation resulting in strong performance. We hope that you will take that aspect of our experience into your consideration.

Our comments are limited to addressing the effect of the Proposal on residential mortgage-backed securities (RMBS). From the viewpoint of a residential mortgage REIT, our intention is to securitize residential mortgage loans in the future, generally holding first-loss economic residual interests in the securitization.

Qualified Residential Mortgages ("QRMs")

(Questions 106 and 110)

We have a few issues with respect to the proposal for QRMs and we have suggestions for additional tiers of QRM with lower risk retention requirements. However, we would first point out that some aspects of QRM we strongly agree with, in particular we view the 80% LTV requirement and the lack of inclusion of a credit score is a positive, and we would be disappointed if these were changed.

However, while the proposed definition for a QRM provides definite eligibility underwriting guidelines for the origination of high quality mortgage loans, we believe that more proactive steps need to be taken by the Agencies to avoid future catastrophic losses in the mortgage industry. Losses on mortgage loans historically were usually no greater than 35% for a typical default and liquidation scenario resulting from situations such as divorce, illness, job loss, etc. However, loss severities as a result of fraud, for which product grade is irrelevant, can be anywhere from 70% to 110%. We believe that minimum operating processing standards should be required in addition to risk retention to have the highest degree of prevention and detection for these high severity situations.

Nothing in the definition of a QRM addresses the fraud issue, which was a major reason for higher loss severity prior and during the financial crisis. The HUD ML 2006-14 Property Flipping Prohibition Amendment guidance provided in June 2006 took a serious step internally to cease fraud at HUD by not insuring "flipped" (scam) borrowers. However, communication of this change was not provided to the rating agencies nor to the entire mortgage industry. After HUD stopped insuring these loans, a huge number of them flooded the private market and were sold to the unsuspecting mortgage banking firms and Wall Street. In addition, there was too much risk taking and there were too many irresponsible products in the market with Wall Street making financing easily available for these products to firms with weak management and without proper controls.. Securitization volumes increased significantly following the change from HUD. Prior to the crisis, the majority of the originator's quality control review processes were mainly post funding events with minimal processes prior to funding of the loan to detect for these sophisticated scams. Although this is not the sole solution to the problem, prior to a loan funding disbursement we would propose that all QRMs must be originated under a platform that contains specific policies and procedures designed to prevent and to detect multiple types of borrower and property fraud transactions including "short sale" flips and also should incorporate a review of the prior servicing. These policies and procedures would be used to cover external and internal fraud, such as by borrowers, loan officers, appraisers and real estate agents. We also believe that the difficulty of borrowers to obtain the lower interest rates which will be intrinsic to a QRM will also result in higher instances of borrower fraud. We would note that fraud losses can be quite severe, and having a low required loan-to-value ratio is rendered meaningless in these types of situations. We believe that the implementation of these fraud procedures can be attested to by a third-party accountant. We also do not believe that this issue will be prevented by requiring sellers into securitizations to make a fraud representation. Representations and warranties have provided inadequate protection to investors in RMBS.

We are also deeply concerned about loan flipping in connection with short sales and foreclosure sales as these fraud scams work in tandem with individuals in the origination process and the servicing of the loan whether it is an internal employee, contractors or broker firms. These scams that have filtrated from government origination market have expanded into a large numbers of short sales where the properties are being sold for a much greater price immediately after the short sale. Also as part of these scams, we are aware that foreclosure sales are purposely not being advertised, and bids are not being presented, to again lower the price of the sale and artificially decrease the value of the property. As a result, for a mortgage loan to be a QRM, we would suggest as a requirement that the originator has policies and procedures in these areas of servicing, and mandate background checks of all individuals working at an affiliated servicer or a third party servicer or any companies hired by such servicers to detect property scams to prevent undue losses to RMBS securityholders.

We agree that loan originations containing an interest-only feature not be within the limitations of the QRM definition however we do want to note that interest only carries additional risk beyond the duration of the risk retention period as interest only periods are typically up to 10 years. For securitizations with high percentages of interest only product, risk retention percentages should be increased.

Additional QRM Categories

(Question 106)

Another problem with the QRM definition is that there are many good, creditworthy borrowers who might not meet the definition but for whom Mortgage Loans should be extended. We feel that these borrowers should have risk retention requirements which are either less severe than 5% or would require 102% of par value with respect to the premium capture reserve account calculation.

Therefore, we would propose the following additional tiers for QRMs:

Tier 1 QRM - 2.50% Prime Loans Risk Retention

- Above 28/36 and up to 33/45 front and back debt ratios (both ratios meeting requirements).
- Over 80% LTV and up to 89.99% LTV.
- Less than 20% down but more than 10% downpayment.
- No late payments in the last 24 months on mortgage and credit trades.

Tier 2 QRM - 5% Prime Loans Risk Retention

- 33/45 and above.
- LTV equal to 90% with MI at 22% coverage or over 90% with MI at 30% coverage.
- 10% or less all cash downpayment with a minimum 5% downpayment.
- 1x30 day allowed in the last 24 months on credit trades.
- No late payments in the last 12 months on mortgage trades.

Premium Recapture Cash Reserve Account

(Question 82)

With respect to the calculation related to the Premium Recapture Cash Reserve Account, we feel that using par value (100% of principal balance) in the calculation is onerous and would prevent small originators such as ourselves from being in the business due to on-going capital needs. We believe for Tier 1 QRMs and Tier 2 QRMs that 102% of par value plus securitization costs is reasonable and would enable us to securitize profitably to cover overhead expenses. We have also heard industry reports that these percentages will be based upon market value, not a percentage of par. We do not believe that basing them on market value would be workable given the difficulty in obtaining market pricing on unrated RMBS.

For mortgage loans that are not QRMs, that are not Tier 1 QRMs or Tier 2 QRMs under our proposal, or which are "non-prime" grade collateral (as defined by the rating agencies), there would be 5% risk retention and 100% would be used for excess spread retention less securitization costs.

Allocation of Risk Retention Among Sponsors and Originators

(Questions 7(a) and 7(b))

We are concerned that originators of significant portions of securitization pools would be able to avoid the risk retention requirements by using third-party "rent-a-shelf" transactions where the sponsor makes all of the representations and warranties. As a result, we would propose that for a securitization pool where more than 50% of the mortgage loans were originated by the same originator, that originator would have to retain at least half of the total risk retention required by that mortgage pool.

Thank you for your attention to this letter. We would welcome the opportunity to meet with you and discuss our suggestions and any questions which you may have.

Respectfully submitted,

THE MAGI COMPANIES

By: Mary Glass-Schannault

Mary Glass-Schannault
President

By Gretchen Verdugo

Gretchen Verdugo
Chairman